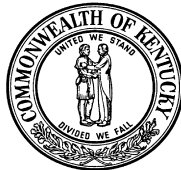




**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
BREATHITT COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES AND
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**



Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Robert E. Cornett, Breathitt County Judge/Executive

Honorable John L. Turner, Breathitt County Sheriff

Members of the Breathitt County Fiscal Court

The enclosed report prepared by Tamara L. Rice, Certified Public Accountant, presents the Breathitt County Sheriff's Settlement - 1998 Taxes and 1998 Unmined Coal Taxes.

We engaged Tamara L. Rice, CPA, to perform the financial audit of this statement. We worked closely with the firm during our report review process; the resulting audit comports with our reporting format. As part of the audit, Tamara L. Rice, CPA, evaluated the Breathitt County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

**AUDIT EXAMINATION OF THE
BREATHITT COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES
AND
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

**TAMARA L. RICE
CERTIFIED PUBLIC ACCOUNTANT
147 RICHMOND ROAD
IRVINE, KENTUCKY 40336
Telephone: (606) 723-1935
Fax: (606) 723-8447**

EXECUTIVE SUMMARY

BREATHITT COUNTY JOHN L. TURNER, SHERIFF SHERIFF'S TAX SETTLEMENT – 1998 TAXES AND 1998 UNMINED COAL TAXES

April 16, 1999

On November 28, 2000 fieldwork was completed on Breathitt County Sheriff Tax Settlement – 1998 Taxes and 1998 Unmined Coal Tax audit. An unqualified opinion was rendered on the financial statements. No reportable conditions relating to the audit of the financial statements were reported.

Deposits and Investments

The Sheriff's deposits were fully insured and collateralized as of April 16, 1999.

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TAMARA L. RICE
CERTIFIED PUBLIC ACCOUNTANT
147 Richmond Road
Irvine, Kentucky 40336

Telephone: (606) 723-1935

Fax: (606) 723-8447

To the People of Kentucky

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Honorable John L. Turner, Breathitt County Sheriff

Members of the Breathitt County Fiscal Court

Independent Auditor's Report

We have audited the Breathitt County Sheriff's Settlement - 1998 Taxes and the Sheriff's Settlement - 1998 Unmined Coal Taxes as of April 16, 1999. These tax settlements are the responsibility of the Breathitt County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted government auditing standards and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Breathitt County Sheriff's taxes charged, credited, and paid as of April 16, 1999, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Mr. John P. McCarty, Secretary

Finance and Administration Cabinet

Ms Mike Haydon, Secretary, Revenue Cabinet

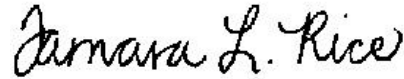
Honorable Robert Cornett, County Judge/Executive

Honorable John L. Turner, Breathitt County Sheriff

Members of the Breathitt County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated November 28, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink that reads "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice

Certified Public Accountant

Audit fieldwork completed -
November 28, 2000

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
April 16, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 196,865	\$ 276,675	\$ 686,599	\$ 271,354
Tangible Personal Property	44,384	55,970	126,218	130,339
Intangible Personal Property				15,874
Oil, Gas and Undeveloped Oil and Gas	2,370	3,330	8,965	3,266
Fire Protection	4,917			
Franchise Corporation	30,778	39,186	91,497	
Bank Franchise	21,928			
Additional Billings	17	23	63	23
Increased Through Erroneous Assessments	27	38	102	37
Penalties	2,951	4,042	9,711	4,051
Adjusted to Sheriff's Receipt	70	1	(10)	3
Gross Chargeable to Sheriff	<u>\$ 304,307</u>	<u>\$ 379,265</u>	<u>\$ 923,145</u>	<u>\$ 424,947</u>
<u>Credits</u>				
Discounts	\$ 3,487	\$ 4,081	\$ 9,934	\$ 5,637
Exonerations	8,433	11,840	30,292	11,522
Delinquents:				
Real Estate	15,385	21,274	52,059	20,865
Tangible Personal Property	43	54	141	58
Intangible Personal Property				52
Oil, Gas and Undeveloped Oil and Gas	25	35	95	34
Uncollected Franchise	115	162	379	
Total Credits	<u>\$ 27,488</u>	<u>\$ 37,446</u>	<u>\$ 92,900</u>	<u>\$ 38,168</u>
Net Tax Yield	\$ 276,819	\$ 341,819	\$ 830,245	\$ 386,779
Less: Commissions *	12,052	14,527	33,210	16,725
Net Taxes Due	\$ 264,767	\$ 327,292	\$ 797,035	\$ 370,054
Taxes Paid	264,625	327,099	796,657	369,757
Refunds (Current and Prior Year)	156	218	404	206
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (14)</u>	<u>\$ (25)</u>	<u>\$ (26)</u>	<u>\$ 91</u>

**

* and ** See Page 4

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
April 16, 1999
(Continued)

* Commissions:

10% on \$ 10,000
4.25% on \$ 995,417
4% on \$ 830,245

** Special Taxing Districts:

Health District	\$	(6)
Extension District		(7)
Soil Conservation District		<u>(12)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>(25)</u></u>
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The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
JOHN L. TURNER, SHERIFF
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES
April 16, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 16,468	\$ 23,144	\$ 62,310	\$ 22,699
Omitted Taxes	1,625	2,148	5,276	2,770
Supplemental Billings	30,179	42,096	116,253	44,946
Penalties and Interest	<u>4,006</u>	<u>5,530</u>	<u>15,158</u>	<u>6,164</u>
Gross Chargeable to Sheriff	<u>\$ 52,278</u>	<u>\$ 72,918</u>	<u>\$ 198,997</u>	<u>\$ 76,579</u>
<u>Credits</u>				
Discounts	\$ 306	\$ 430	\$ 1,158	\$ 422
Delinquents	<u>384</u>	<u>540</u>	<u>1,453</u>	<u>530</u>
Total Credits	<u>\$ 690</u>	<u>\$ 970</u>	<u>\$ 2,611</u>	<u>\$ 952</u>
Net Tax Yield	\$ 51,588	\$ 71,948	\$ 196,386	\$ 75,627
Less: Commissions *	<u>2,192</u>	<u>3,058</u>	<u>7,855</u>	<u>3,214</u>
Net Taxes Due	\$ 49,396	\$ 68,890	\$ 188,531	\$ 72,413
Taxes Paid	<u>49,396</u>	<u>68,890</u>	<u>188,531</u>	<u>72,413</u>
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
* Commissions:				
4.25% on 199,163				
4% on 196,386				

The accompanying notes are an integral part of the financial statements.

BREATHITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS

April 16, 1999

Note 1. Summary of Significant Accounting Policies

Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The Sheriff met the requirements stated above, and as of April 16, 1999, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

BREATHITT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
April 16, 1999
(Continued)

Note 4. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1998 through April 16, 1999.

Unmined Coal Taxes

The unmined coal tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 1, 1998 through April 16, 1999.

Note 5. Interest Income

The Breathitt County Sheriff earned \$1,482 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TAMARA L. RICE
CERTIFIED PUBLIC ACCOUNTANT
147 Richmond Road
Irvine, Kentucky 40336

Telephone: (606) 723-1935

Fax: (606) 723-8447

Honorable Robert Cornett, Breathitt County Judge/ Executive
Honorable John L. Turner, Breathitt County Sheriff
Members of the Breathitt County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Breathitt County Sheriff's Settlement - 1998 Taxes and Sheriff's Settlement - 1998 Unmined Coal Taxes as of April 16, 1999, and have issued our report thereon dated November 28, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Breathitt County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

We concluded that the internal control structure lacks a proper segregation of duties. Due to the entity's diversity of operations, small size and budget restrictions, there is limited staff size, which prevents an adequate segregation of duties. The Sheriff has statutory authority to assume the role of custodian of monetary assets as well as recorder of transactions and preparer of financial statements. However, the lack of segregation of duties is hereby noted as a reportable condition.

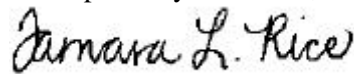
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Report On Compliance And On Internal Control
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Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the lack of adequate segregation of duties to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in dark ink, reading "Tamara L. Rice". The signature is written in a cursive, flowing style.

Tamara L. Rice
Certified Public Accountant

Audit fieldwork completed -
November 28, 2000

